

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2006

1. BASIS OF PREPARATION

The Company is an investment holding company. The principal activities of the Group are property development and property investment.

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Accounting Standard 34 (HKAS 34) "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The Group had net current liabilities of approximately HK\$203,538,000 as at 30 June 2006. Notwithstanding, the Directors are of the opinion that the preparation of these condensed consolidated financial statements under going concern basis is appropriate due to the following considerations:

(1) Availability of facility and financial support

The amount available to the Group for borrowings under the facility granted by Perfect Zone International Limited ("PZIL"), ultimate holding company, at 30 June 2006 was HK\$100,000,000, in which the Group had not utilised as at 30 June 2006.

PZIL has also committed to providing financial support to enable the Group to meet in full its financial obligations when they arise and to continue the Group's operations for a period of twelve months from the date of this report.

(2) Potential sales of the Group's stock of properties

The Group is actively seeking buyers for certain stock of properties.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties, which are measured at fair value.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The Directors anticipate that the application of these standard, amendment and interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC) — Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC) — Int 8	Scope of HKFRS 2 ³
HK(IFRIC) — Int 9	Reassessment of Embedded Derivatives ⁴

¹ Effective for annual periods beginning on or after 1 January 2007

² Effective for annual periods beginning on or after 1 March 2006

³ Effective for annual periods beginning on or after 1 May 2006

⁴ Effective for annual periods beginning on or after 1 June 2006

3. SEGMENT INFORMATION

For management purposes, the Group is organised into two main operating businesses — property development and property investment. These businesses are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

Business segments

Results

	Six months ended 30 June 2006		
	Property development (unaudited)	Property investment (unaudited)	Total (unaudited)
	HK\$'000	HK\$'000	HK\$'000
Segment turnover	<u>82,036</u>	<u>6,104</u>	<u>88,140</u>
Segment results	<u>64,253</u>	<u>4,816</u>	<u>69,069</u>
Other income, net			37,941
Corporate administrative expenses			(26,075)
Finance costs			(21,131)
Share of results of an associate	(506)	—	<u>(506)</u>
Profit before taxation			59,298
Taxation			<u>(18,408)</u>
Profit for the period			<u>40,890</u>

	Six months ended 30 June 2005		
	Property development (unaudited)	Property investment (unaudited)	Total (unaudited)
	HK\$'000	HK\$'000	HK\$'000
Segment turnover	—	6,061	6,061
Segment results	(1,888)	4,354	2,466
Other income, net			2,244
Corporate administrative expenses			(17,804)
Excess of fair values of net assets acquired over cost of acquisition			17,976
Finance costs			(2,703)
Share of results of an associate	8,849	—	8,849
Profit before taxation			11,028
Taxation			(1,849)
Profit for the period			9,179

4. FINANCE COSTS

	Six months ended 30 June	
	2006	2005
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Interest on:		
Bank borrowings	11,500	2,476
Promissory note	3,907	227
Convertible note	5,724	—
	21,131	2,703

5. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging (crediting):

	Six months ended 30 June	
	2006 (unaudited) HK\$'000	2005 (unaudited) HK\$'000
Staff costs, including directors' remuneration		
Salaries and other benefits	6,429	7,401
Contribution to retirement benefits scheme	424	179
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Total staff costs	6,853	7,580
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Amortisation of prepaid lease payments	7,489	1,693
Less: Amount capitalised in property, plant and equipment	(304)	—
	<hr/>	<hr/>
	7,185	1,693
	<hr/>	<hr/>
Depreciation of property, plant and equipment	2,556	2,063
Outgoings in respect of investment properties	1,127	637
Gross rental income from investment properties	(6,104)	(6,061)
Interest income	(126)	(69)
Share of tax of an associate (included in share of results of an associate)	—	2,145
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6. TAXATION

	Six months ended 30 June	
	2006 (unaudited) HK\$'000	2005 (unaudited) HK\$'000
Current tax		
— Income tax in the People's Republic of China calculated at prevailing rates	10,463	169
Deferred tax	7,945	1,680
	18,408	1,849

No provision for Hong Kong Profits Tax has been made in the financial statements for the six months ended 30 June 2006 and 30 June 2005 as the companies within the Group had no assessable profits arising in Hong Kong.

7. DIVIDEND

No dividend was paid during the six months ended 30 June 2006.

During the six months ended 30 June 2005, HK5 cents per share amounting to HK\$41,382,000 in aggregate was paid as final dividend for the year ended 31 December 2004.

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2006 (the corresponding period in 2005: Nil).

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	30 June 2006 (unaudited) HK\$'000	30 June 2005 (unaudited) HK\$'000
Earnings		
Earnings for the purposes of basic earnings per share	40,890	9,179
Effect of dilutive potential ordinary shares:		
Interest on convertible note	5,724	—
Earnings for the purposes of diluted earnings per share	46,614	9,179
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	827,639,886	827,639,886
Effect of dilutive potential ordinary shares: convertible note	185,185,185	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	1,012,825,071	827,639,886

9. INVESTMENT PROPERTIES

The Group's investment properties were fair-valued by Savills Valuation and Professional Services Limited at 30 June 2006. The resulting increase in fair value of investment properties of HK\$36,225,000 has been recognised directly in the condensed consolidated income statement.

10. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment at a cost of HK\$110,823,000, in which HK\$109,000,000 is attributable to construction-in-progress of hotel properties. During the period, the Group transferred a portion of building related to its office premises with carrying value of HK\$5,375,000 to investment properties (see note 18(c)).

11. TRADE RECEIVABLES

The trade receivables at 30 June 2006 are all within 90 days.

12. TRADE PAYABLES

The trade payables at 30 June 2006 are all within one year.

13. BANK BORROWINGS

During the period, the Group repaid bank borrowings amounting to HK\$8,324,000. The loans bear interest ranging from 3-month Hong Kong Inter-bank Offered Rate ("HIBOR") + 1.25% to HIBOR + 1.5% and are repayable in instalments over an average period of 3 years.

14. SHARE CAPITAL

	Number of shares '000	Share capital HK\$'000
Ordinary shares of HK\$0.1 each		
Authorised:		
At 1 January 2005, 31 December 2005 and 30 June 2006	10,000,000	1,000,000
Issued and fully paid:		
At 1 January 2005, 31 December 2005 and 30 June 2006	827,640	82,764

15. AMOUNT RECEIVED FROM SUIFENHE LAND RESERVE CENTRE

Pursuant to two agreements dated 18 March 2004 and 21 July 2004, the Group was appointed to construct the ancillary facilities and infrastructure surrounding the area of the Suifenhe — Pogradichny Cross-border Trade Zone on behalf of the Municipality of Suifenhe. Aggregate balance of HK\$116,807,000 was received in advance from Suifenhe Land Reserve Centre ("SLRC") in 2004, which are non-interest bearing. The development costs incurred for the ancillary facilities and surrounding infrastructure will be reimbursed on an actual basis against the advances received up to a total of HK\$116,807,000. Any shortfall will be borne by the Group while any surplus will be refunded to SLRC. The actual reimbursement will be fixed with SLRC upon completion of the ancillary facilities and surrounding infrastructure.

In the opinion of the Directors, the total costs required for the construction of the ancillary facilities and surrounding infrastructure approximate the amount received from SLRC. This estimation will be revised on a timely basis as more construction contracts are entered into and the development progresses. Up to 30 June 2006, the construction costs incurred amounted to approximately HK\$61,272,000 (31 December 2005: HK\$2,143,000).

16. CONTINGENCY

Under the Provisional Regulations on Land Appreciation Tax ("LAT") implemented upon the issuance of the implementation bylaw on 27 January 1995 in the People's Republic of China ("PRC"), all gains arising from the transfer of real estate property in the PRC effective from 1 January 1994 are subject to LAT at progressive rates of up to 60%.

No provision for LAT has been made by the Group's associate, Shanghai Shimao Hubin Real Estate Company Limited ("Shimao Hubin") and its subsidiary, Suifenhe Shimao Development and Construction Company Limited ("Suifenhe Shimao") in the condensed consolidated financial statements since Shimao Hubin and Suifenhe Shimao had not been demanded by the relevant authorities to pay LAT and the Directors consider that it is unlikely to receive demands from the tax authorities in the PRC for payment of the LAT relating to the sales revenue recognised on or before 30 June 2006 which would otherwise have amounted to approximately HK\$194 million (31 December 2005: HK\$194 million) and HK\$45 million (31 December 2005: Nil) respectively.

17. COMMITMENT

As at 30 June 2006, the Group had the following capital commitments in respect of property, plant and equipment:

	30 June 2006 (unaudited) HK\$'000	31 December 2005 (audited) HK\$'000
Contracted but not provided for in the condensed consolidated financial statements	49,121	186,682

18. RELATED PARTY TRANSACTIONS

- (a) On 15 April 2006, the Group entered into agreements to invest in a large scale property investment and development project in St. Petersburg, Russia at a consideration of HK\$232,747,000 (the "Baltic Pearl Project"). The project involves the development of a mixture of residential, hotel, commercial and retail space, office, exhibition and convention facilities on a land of 1,640,717 sq. m..

Upon completion of the agreements, the Group will have a 33.34% interest in the Baltic Pearl Project. The transaction will be financed by a loan of HK\$232,747,000 from the ultimate holding company for a term of four years at interest rate of 2% per annum. The Group has an option to make repayments of the loan or to extend the repayment date for a further two years. As at 30 June 2006, the Group had not drawn the loan from the ultimate holding company.

- (b) On 20 April 2006, the Group obtained an unsecured revolving facility of HK\$100,000,000 from the ultimate holding company for a period of 18 months.
- (c) On 12 June 2006, the Group entered into a rental agreement to lease office space to Shimao Property Holdings Limited, a related company listed on the Stock Exchange. The office space concerned is transferred from property, plant and equipment to investment properties (see note 10). During the period, rental income earned was approximately HK\$95,000.

19. PROPERTY INVESTMENT AND DEVELOPMENT PROJECT ON THE RUSSIAN BORDER OF THE SUIFENHE-POGRANICHNY CROSS-BORDER TRADE ZONE

As disclosed in note 34(c) of annual report of the Company for the year ended 31 December 2005, the Directors are of the opinion that the property investment and development project on the Russian border is still in a preliminary stage and pending approvals from relevant governmental authorities of the PRC and of the Russian Federation, respectively.